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UNCLAS SECTION 01 OF 05 MONROVIA 000751

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SUBJECT: LIBERIA: AGOA ELIGIBILITY REVIEW 2009

REF: STATE 97769

¶1. (U) COUNTRY BACKGROUND SUMMARY: Liberia has a government that was democratically elected in multi-party elections in October/November 2005. The government has moved to exert its authority throughout the country but security still depends on the 10,000-strong United Nations Mission in Liberia (UNMIL) deployment. Military occupational skills training and Collective Training will be completed for all 2,133 soldiers of the new Armed Forces of Liberia in 2009. All units are now fully equipped as well. Over 3,800 new Liberia National Police have been trained and deployed throughout Liberia, and an armed Emergency Response Unit is now operational. Economic activity, marked by an increase in investment, is on the rise.

¶2. (U) Although the global downturn has dampened Liberia's economic recovery, the IMF projects double-digit GDP growth from 2009 through 2012. The inflation rate in 2008 was 17.5%. The Government of Liberia (GOL) budget for the 2009-2010 fiscal year (ending June 30, 2010) reached \$371 million, 20% higher than the final budget the previous year. Despite Liberia's rich natural resources and potential for self-sufficiency in food production, the country's productive capacity remains depressed by high unemployment, low literacy, poor health, corruption, and the absence of basic infrastructure. Only about 15% of the workforce is employed in the formal sector. Illiteracy is estimated to be over 60%. Sustained economic growth is also hindered by inadequate roads, water, sewage and electrical services.

¶3. (U) The government is in the second year of Liberia's three-year Poverty Reduction Strategy (PRS). In September 2009, the GOL successfully graduated from the Governance and Economic Management Assistance Program (GEMAP) and expects to reach Heavily Indebted Poor Countries (HIPC) Completion Point in 2010.

¶II. Market-Based Economy

¶4. (U) Major Strengths Identified

-- Liberia remains open to foreign investment, attracting over \$130 million in new investment in 2008.
-- Registering a business in Liberia is relatively simple. The GOL announced 21 reforms to the business climate in 2008 and an additional 18 reforms in May 2009, with a focus on Starting a Business, Trading Across Borders, Dealing with Construction Permits and Registering Property. Those changes improved Liberia's ranking in the World Bank "Doing Business" index from 157 of 181 countries in 2008 to 149 of 183 countries in 2009.
-- The GOL hosted an inter-agency AGOA workshop in March 2008.
-- Liberia cleared its arrears to the World Bank, IMF, and African Development Bank (approximately \$1.6 billion), reached HIPC Decision Point in March 2008, and cleared \$1.9 billion in arrears to commercial creditors in April 2009.
-- Reform of the budget process continues. The government continues to publish detailed copies of the final budget and quarterly fiscal

outturns. The 2009-10 budget of \$371 million is over 24% higher than the initial 2008-09 budget.

-- Civil service salaries were increased 14% for FY2009-10, to \$80 a month for the lowest level of basic pay.

-- U.S. Treasury advisors are working with the Ministry of Finance to improve tax administration, strengthen internal controls and increase revenue collection.

-- The Liberia Extractive Industries Transparency Initiative (LEITI) continues to operate successfully in its third year and Liberia is set to be one of the first EITI compliant countries. The membership of the steering group includes the GOL, civil society groups, private sector, and development partners.

-- The National Legislature passed the Public Financial Management Act, a key benchmark for HIPC Completion Point and essential to transparent tax administration.

-- The Central Bank of Liberia managed to maintain low single-digit inflation in late 2008 and early 2009, despite high and fluctuating commodity prices.

-- Liberia has enacted laws on intellectual and industrial property and copyright, and there is indigenous support for protection of intellectual property rights in the press and by organizations of intellectual property producers.

15. (SBU) Major Problems/Issues Identified

-- Liberia's economy remains less competitive because of the high cost of operating in Liberia owing to the need for private security services and the lack of basic infrastructure such as the road networks, electricity, and water/sewage systems needed to spur economic growth. The costs of rebuilding the damaged infrastructure are enormous. The economy is heavily dependent on the infusion of funds made available by international donors, the presence of the

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UNMIL peacekeeping force, and international NGOs. Foreign assistance still exceeds the national budget.

-- Ongoing economic reforms are squeezing entrenched interests, possibly leading to stronger resistance to further reform.

-- Delays in initiating commercial export of timber will have a negative impact on the budget.

-- Concerns about possible corruption and lack of transparency in timber contracts increase the uncertainty of the investment climate and threaten the resumption of this once vibrant industry.

-- The continued dominance of the import and wholesale/retail economy by Lebanese and Asian businesspeople continues to breed resentment. The Ministry of Commerce favors policies protecting Liberian ownership of some sectors of the economy.

-- Laws preventing foreign ownership of land and acquisition of citizenship remain on the books. These laws have discouraged long-term investment by foreign-owned/operated businesses.

-- Modernization in the sectors reserved for Liberians has been hampered by lack of capital and technical expertise.

-- Liberian nationality laws restrict citizenship (and thus land ownership) to those of Negro descent.

-- Despite having enacted laws on intellectual and industrial property and copyright, the government has failed to enforce these laws. There is wide-spread sale of pirated CDs, counterfeit drugs, and knock-off electronic products.

-- Persistent corruption and a culture of patronage inhibit open and transparent concession and procurement processes. The Public Procurement and Concessions Commission, created in 2006, and the Liberia Anti-Corruption Commission (LACC), created in 2008, have yet to develop the capacity and political will to offset fully these influences. Efforts to reform the procurement process at government ministries and agencies have slowed government expenditure and continue to falter due to lack of institutional capacity.

II. Rule of Law/Political Pluralism/Anti-Corruption

16. (U) Major Strengths Identified

-- Liberia has a democratically-elected government resulting from free and fair elections in 2005. There were six successful legislative by-elections since 2006.

The GOL improved sharply on the World Bank Institute index for

Control of Corruption.

-- The Government launched the Liberia Anti-Corruption Commission (LACC) in September 2008, which will be responsible for investigating and prosecuting graft and bribery at all levels.

-- The General Auditing Commission has initiated audits of 28 GOL ministries and agencies, and completed five of them.

-- A Civil Service Reform Strategy was launched in September 2008. The civil service has been trimmed by nearly 6,700 positions (many of them "ghost" employees) in the past two years and the streamlining will continue as the government launches a biometric payroll system as part of its civil service reform strategy.

-- The Ministry of Finance (MOF) has slashed processing time for vouchers and other payments and used a Cash Management Committee to exert better control of expenditures.

-- The GOL has moved to increase transparency and accountability in procurement and concessions. Several contracts for investment in iron ore mining, rubber and oil exploration have been reviewed and revised to be more equitable.

-- The legislature holds open public hearings on the most contentious issues.

-- Political parties operate openly and without restriction, and participate fully in the political process.

-- UNMIL continues to provide stability. Security sector reform is progressing well. The Liberia National Police (LNP) and Special Security Service (SSS) have been trained and reorganized. Over 2,000 members of the new Armed Forces of Liberia (AFL) have been trained.

-- The government is collaborating with UNMIL, the U.S. and other stakeholders in rule of law reform.

-- Liberia successfully graduated from the corruption-fighting Governance and Economic Management Assistance Program (GEMAP) in September. Liberia has ratified the UN and African Union conventions on corruption.

-- The independent press is flourishing with multiple newspapers and radio stations. The press, NGOs and opposition parties have freely criticized the current government with minimal harassment.

-- There has been improvement in health, security and administration in the corrections system.

-- Government consultation with industry on regulatory actions is improving.

17. (SBU) Major Problems/Issues Identified

-- Although the National Legislature holds open sessions and voting results are made public, many issues are still decided only in closed "executive" sessions.

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-- The Legislative and Judicial branches lag behind the Executive in capacity and commitment to reform.

-- UNMIL's mandate does not include executive policing authority. The LNP's capacity and motivation to deal effectively with crime is inadequate. The 3,800 police force is poorly equipped and insufficient to cope with the demand for officers across the country.

-- Lack of confidence in the police and judicial system has sometimes resulted in mob violence, vigilantism, and trial by ordeal, especially in rural areas.

-- The shortage of police officers has placed a strain on the limited resources of the LNP. Members of the LNP and the judiciary have at times refused assignments to rural counties because of inadequate infrastructure and living conditions and difficulty receiving pay on a regular and timely basis.

-- Despite improvements, the judicial and penal systems function poorly throughout most of the country. There continues to be a lack of coordination between the Judiciary and the Ministry of Justice on rule of law issues.

-- Corruption and uneven quality of judges remain problems. Some rural magistrates are barely functionally literate. There continue to be allegations of judicial officials overstepping their authority.

-- Lengthy pretrial detention and denial of due process remain problems.

-- Traditional justice methods like trial by ordeal remain common in many places.

-- Despite the civil service salary increases, the commitment to

fight corruption is undermined by the low and irregular salaries and the low rate of formal employment.

-- Although several officials have been dismissed for corruption, they have yet to be prosecuted.

-- The Executive branch relies heavily on the court system in addressing issues of corruption. Many ministries either lack administrative measures to address corruption or fail to act.

-- The GOL, although responsive to foreign partners' calls for transparency and accountability in government, continues to struggle with building and maintaining the political will needed to root out systemic corruption.

-- The Legislature has failed to enact legislation to freeze assets of those on the UN sanctions list on constitutional grounds. While the President has reiterated her government's commitment to enforce UN Security Council sanctions, including the asset freeze directed against loyalists of the former president, no action has been taken.

-- Low levels of capacity and professionalism in the press have undermined press effectiveness. Journalists are poorly paid and revert to gift-taking, which weakens their objectivity. It is common practice to pay to have stories published.

-- The Legislature has not yet ratified the Code of Conduct for Liberian Public Servants or the Freedom of Information Act.

III. Poverty Reduction

18. (U) Major Strengths Identified[U1]

-- The GOL launched a three-year Poverty Reduction Strategy in 2008 that focuses on security, economic revitalization, rule of law/economic governance and infrastructure and basic social services.

-- In 2009 Liberia was invited to submit a proposal for a Millennium Challenge Corporation Threshold Program to strengthen indicators in land reform, girls' education and trade.

-- The March 2008 census provided updated information that underpins implementation of the PRS and confirms Liberia's population at 3.476 million people.

-- The ongoing effort to clear Liberia's arrears to the International Financial Institutions and eventually provide Liberia with Heavily Indebted Poor Country and Multilateral Debt Relief Initiative debt relief will make Liberia eligible for additional development assistance and allow the government to increase spending on poverty reduction.

-- The GOL enacted legislation that underpins progress towards HIPC Completion Point, including a new Revenue Code and the Public Financial Management Act.

-- The Ministry of Education receives the largest budget allocation (11.5%), and the Ministry of Health and Social Welfare received 7% of the total. Primary school enrollment was 33% in 2007.

-- Budgetary expenditure for health increased by 21% in FY2009-10, and for education by 35%. The President's budget message notes a 39% increase in spending on ministries and agencies involved in poverty reduction.

-- The GOL has been proactive in tackling the food security crisis while moving towards a more market-oriented economy. (Note: 60[U2]% of Liberians live below the poverty line.) In 2008, the GOL introduced a national program for food security known as 'Operation Eliminate Hunger', and the President launched the 'Back to the Soil'

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campaign to address the issue of food insecurity in Liberia.

-- Support by international partners remains strong, with foreign assistance of \$449.5 million in FY2008-09.

-- Political stability continues to provide a foundation for economic growth.

-- The removal of UN sanctions on timber and diamonds allowed for some resumption of legal exports in 2008. While export revenues remain modest, resumption of activity in these sectors could provide both employment and increased GOL revenue in the coming years.

-- Investment in the iron ore sector, which has been dormant for the last 20 years, is expected to add much-needed employment outside Monrovia.

-- Improvements in basic infrastructure, including farm-to-market roads, should spur agricultural production and increase rural

incomes[U3]. The Ministry of Agriculture has been instrumental in trying to rebuild the agricultural capacity by providing tools and seeds.

-- Donor-supported projects have been initiated to revitalize the tree crop sector, especially smallholder cocoa, oil palm and rubber production.

-- Liberia's HIV/AIDS rate is under 2%, and the GOL is conducting prevention campaigns.

-- Employees who earn the minimum salary of \$80 are exempt from taxes.

-- Donor-supported projects have been pledged to support an increase in staple crop production, especially rice, to insulate Liberia from global commodity price fluctuations.

-- The donor-funded Emergency Power Project introduced 10 megawatts of on-grid electricity from generators to Monrovia in 2008. Other biomass and heavy-fuel oil plants may further increase affordable power in the coming two years.

-- Liberia's first national policy on energy was prepared and validated by a series of public workshops.

¶9. (SBU) Major Problems/Issues Identified

-- Poverty remains pervasive. Basic services, including roads and access to electricity and safe water, are not available to most of the population.

-- Land tenure remains a volatile issue that provokes sporadic yet violent clashes. Unresolved land disputes could jeopardize economic growth projections, especially anticipated revenue from forestry concessions, and limit potential growth in agriculture[U4].

-- The global economic downturn has stalled anticipated investment and production, and lowered revenues, slowing progress on the PRS.

-- Liberian enterprise development is hampered not only by poor access to capital but also a lack of business development services. Fledgling small and medium scales enterprises compete among themselves rather than cooperate to improve the competitive stance of their respective value chains.

-- The high level of illiteracy reduces employment options.

-- From a pre-war (circa 1980) national budget in excess of \$500 million, the government operates with a Liberian FY2009-10 budget of \$371million, limiting its ability to spend adequately on key sectors like health, education and housing.

-- Until Liberia reaches HIPC Completion Point, it cannot borrow to smoothe expenditures or fund social services projects.

-- Liberia is unlikely to meet the Millennium Development Goals. For example, maternal mortality remains high, at 994 per 100,000 live births in 2007. (Note: 2008 and 2009 figures are not available. End note)

IV. Workers' Rights/Child Labor/Human Rights

¶10. (U) Major Strengths Identified

-- The GOL constituted a Tripartite Commission (government, business, labor) in 2008 to focus on labor reforms.

-- Management and workers agreed to a collective bargaining agreement at Liberia's largest private employer, Firestone Liberia.

-- Liberia has repealed People's Redemption Council's Decree Number 12, which prohibited strikes and other workers' actions.

-- The labor code was revised in September 2007 to limit firing of employees without cause ("Section 1508").

-- The Liberian Constitution prohibits slavery and forced labor, debt bondage or peonage, including by children.

-- In 2002, Liberia ratified ILO Convention 182 on the Worst Forms of Child Labor.

-- In 2005, Liberia passed anti-rape and anti-trafficking in persons legislation. More attention has been focused on dealing firmly with rape offenders.

-- The Truth and Reconciliation Commission collected approximately 18,000 statements from Liberia and the Diaspora and held almost 700 witness hearings. It provided psychosocial counseling to war

victims, empowered women's groups to stand up against gender-based violence, and held reconciliation and memorial ceremonies at the massacre sites throughout the country.

-- Refugees and internally displaced persons are returning to their places of origin. All IDP camps have been closed.

-- The UNMIL Civilian Police are a significant stabilizing and watchdog force for human rights, as well as a force to assist and train the Liberia National Police.

-- The government has declared that primary education will be free and that all children should attend school.

11. (SBU) Major Problems/Issues Identified

-- Although Liberia ratified the ILO Convention 182, it lacks the capacity to fully enforce labor laws.

-- Union power is generally weak and the law does not prohibit anti-union discrimination.

-- Liberia has not yet ratified ILO Convention 138 on minimum age.

-- Child labor is a problem. There were reports that children were tapping rubber at smaller rubber plantations and private farms, children worked in hazardous conditions in other industries and children were forced by their guardians to sell items in the street.

-- Despite GOL efforts to stem the practice, some incidences of trial-by-ordeal were reported.

-- Violence and discrimination against women, especially rape and female genital mutilation, remain problems.

-- Child abuse, trafficking in persons, and ethnic discrimination were problems.

-- Costs relating to education (books and uniforms) remain prohibitive for many children.

IV. International Terrorists/U.S. National Security

12. (U) Major Strengths Identified

-- Liberia is not a sponsor of international terrorism.

-- In the UN, Liberia voted with the United States on 55.6% of important votes and on 80% of important consensus resolutions.

-- The National Legislature on September 11, 2006 passed a joint resolution offering Liberia's land, air space and territorial waters, as well as any other assets which lie within its domain in its fight against global terrorism.

-- The GOL has publicly announced its willingness to host AFRICOM.

13. (SBU) Major Problems/Issues Identified

-- The government lacks effective control over its territory and borders. Weak law enforcement provides opportunities for diamond and illicit drug smuggling and money laundering and cause loss of revenue from fishing and other activities.

ROBINSON

[U1]I may have missed it, but in 2009 Liberia was invited to submit a proposal for a MCC Threshold Program. Program would strengthen indicators in land reform, girls education and trade.

[U2]80% live on \$ 1 day or less...so this number could be higher.MH

[U3]May be useful to mention FY 09, \$10 million supplemental given by USG for Global Food Security Response. Also, \$ 9 million earmark for water (Get language from John Stamm).

[U4]Need to diversify agriculture into high-value horticulture.